



King County  
**Administrative Policies and Procedures**

General Administrative  
Policies & Procedures

Title

Provision for Estimated Uncollectible Accounts Receivable

Document Code No.

FIN 11-2 (AP)

Department/Issuing Agency

Office of Financial Management, Accounting Services

Effective Date

Dec. 1990

Approved

*Pat Steel*

Chief Financial Officer

*E. J. ALONZA*

Chief Accountant

1.0 SUBJECT TITLE: Provision for Estimated Uncollectible Accounts Receivable Policies and Procedures

1.1 EFFECTIVE DATE: December, 1990

1.2 TYPE OF ACTION: New

1.3 KEY WORDS: (1) Accounts Receivable; (2) Aged Trial Balance of Accounts Receivable; (3) Bad Debts.

2.0 BACKGROUND AND PURPOSE:

2.1 Background:

In King County government, several County agencies carry non-tax accounts receivable on the clients they do business with. A number of the accounts receivable are administered through the Automated Invoicing and Receivables System (AIRS) managed by the Office of Financial Management, Accounting Services Division. However, some of them are administered directly by the agencies. Receivables that will never be collected have a zero present value and the corresponding revenue will not be realized.

On the Balance Sheet, the estimate of uncollectible accounts is carried as a credit balance in a valuation account titled "Estimated Uncollectible Accounts Receivable" or "Estimated Uncollectible Due from Other Governments". A separate valuation account is used because it is not known which specific accounts will prove uncollectible and the "Accounts Receivable" control account must agree with the subsidiary ledger total.

2.2 Purpose:

To provide uniform guidelines whereby a provision for estimated uncollectible accounts receivable is determined and recorded in the accounting records to avoid an overstatement of assets and revenues in the period in which receivables are recorded.



### 3.0 ORGANIZATIONS AFFECTED

All County agencies involved with non-tax receivables.

### 4.0 REFERENCES AND WORKING MATERIALS

- 4.1 Administrative Policy/Procedure FIN 11-4 "Write-Off of Uncollectible Accounts Receivable".

### 5.0 DEFINITIONS

- 5.1 AIRS: Automated Invoicing and Receivables System. This is King County's centralized accounts receivable system.
- 5.2 Accounts Receivable: This includes all non-tax debts owed to King County by the private sector and by other governments.
- 5.3 Aged Trial Balance of Accounts Receivable: A schedule classifying the balances of all accounts receivables according to varying lengths of time the accounts are past due. Generally, a strong correlation exists between the length of time an account is past due and its collectibility. A provision for estimated accounts receivable can be computed by estimating the probability of collection for each age class. The number of different age classes to be used depends on experience. An estimate of the average collection experience for each age class provides a basis for estimating the portion of outstanding accounts receivables that may be uncollectible. In the process of aging the accounts receivable, an evaluation of major customers should be made in order to assess more fully the probability of collection. (See Exhibit 1.)
- 5.4 Estimated Uncollectible Accounts Receivable: A separate valuation account used to record an estimate of those receivables which are considered to be uncollectible to avoid an overstatement of assets and revenues in the period in which receivables are recorded.
- 5.5 GAAP: Generally Accepted Accounting Principles promulgated by both the Governmental Accounting Standards Board and the Financial Accounting Standards Board.
- 5.6 OFM: Office of Financial Management - Accounting Services Division

### 6.0 POLICIES

- 6.1 County agencies with non-tax receivables shall comply with these policies and procedures in order to facilitate responsible accounting for their accounts receivable and provide a fair representation in King County's financial statements.



- 6.2 County agencies shall prepare and review an aged trial balance of their accounts receivable as often as necessary, but at least once a year, in order to determine an appropriate amount for estimated uncollectible accounts receivable. This shall be completed and recorded at least annually, but prior to the closing of each 13th month. County agencies may request in writing to OFM, approval to use an alternative methodology if they feel that the Aged Trial Balance method will not fairly represent their accounts receivable.
- 6.3 County agencies shall send a request to the Chief Accountant, OFM, to record a provision for estimated uncollectible accounts receivable in the County's accounting records.
- 6.4 For accounts receivable on AIRS, OFM shall prepare and review the accounts receivable aged trial balances, compute the provision for estimated uncollectible accounts receivable, and provide recommendations to County agencies on the appropriate amount of the provision(s) for estimated uncollectible accounts receivable.
- 6.5 County agencies shall review the recommendations per Section 6.4 and respond to OFM within 10 working days from the date of the recommendations.
- 6.6 OFM shall have final decision authority over the provisions for estimated uncollectible accounts receivable to be recorded, and shall record the provisions in accordance with GAAP.



7.0 PROCEDURES

<u>Responsibility</u>	<u>Action</u>
	7.1 <u>Procedural Overview</u>
	7.1.1 Accounts receivable administered decentrally by County agencies shall be addressed in accordance with subsections 7.2 through 7.8.
	7.1.2 Accounts receivable administered centrally through AIRS by OFM shall be addressed in accordance with subsection 7.9.
	7.2 <u>Evaluating the Status of Accounts Receivable</u>
Agency	7.2.1 Group accounts receivable by type and age (e.g., accounts receivables due from other governments, from private organizations, and individuals).
Agency	7.2.2 Prepare an Aged Trial Balance for each accounts receivable group by classifying the balances according to varying lengths of time they are past due (see Exhibit 1). The number of different age classifications to be used depends on collection experience.
Agency	7.2.3 Prepare a separate schedule for each of the following groups, if applicable: <ul style="list-style-type: none"><li>◦ Accounts receivable being disputed by the debtor. Also indicate the most likely outcome of each disputed account.</li><li>◦ Accounts receivable in litigation. Also indicate the most likely outcome of each.</li><li>◦ Accounts receivable which have been sent to collection agencies and returned as uncollectible.</li><li>◦ Accounts receivable related to services provided without (or pending) a signed contract.</li></ul>



<u>Responsibility</u>	<u>Action</u>
Agency	<p>7.2.4 Determine the collection rates of the various accounts receivable groups after segregating out the four groups referred to in subsection 7.2.3 above. Using these rates, determine the probability of collecting the accounts receivable balance for each group.</p> <ul style="list-style-type: none"><li>° As a general rule, consider <u>all</u> balances over one year old as estimated uncollectible, unless there are justifiable reasons to exempt an account or a group of accounts.</li><li>° Determine the probability of not collecting balances less than one year old by reviewing past collection experience and compute the provision for estimated uncollectible accounts receivable accordingly. Retain a record of the computations and justification.</li></ul>
	<p>7.3 <u>Accounts Receivable in Dispute</u></p>
Agency	<p>7.3.1 Evaluate the probable outcome of accounts receivables in dispute to determine whether a provision for estimated uncollectible accounts receivable should be established and the amount.</p>
	<p>7.4 <u>Accounts Receivable Under Litigation</u></p>
Agency	<p>7.4.1 Evaluate the receivable under litigation with the help of the Prosecuting Attorney's Office and establish a provision for estimated uncollectible accounts receivable where appropriate.</p>
	<p>7.5 <u>Services Provided Without (or pending) a Signed Contract</u></p> <p>In some cases, it is necessary to start or continue providing services before a contract is signed by the funding agency. In many cases, these services are mandated by law. As a result, a substantial accounts receivable balance could be accumulated before the contract is signed.</p>



<u>Responsibility</u>	<u>Action</u>
Agency	7.5.1 Evaluate the likelihood of obtaining a signed contract and determine whether the contract will cover all of the receivables recorded. Determine if a provision for estimated uncollectible accounts receivable is needed.
	7.6 <u>Accounts Receivable Pending with Collection Agencies</u>
Agency	7.6.1 Compute a provision for estimated uncollectible accounts receivable based upon the agency's collection rate(s) on these accounts.
Agency	7.6.2 Classify all accounts receivable which have been processed and returned by the collection agency as "uncollectible", if they have not been written off in the meantime.
	7.7 <u>Requesting a Provision for Estimated Uncollectible Accounts</u>
Agency	7.7.1 Prepare a memo to request a provision for estimated uncollectible accounts receivable addressed to the Chief Accountant, OFM. Support the request by an aged trial balance and any correspondence, notes or analyses which form the basis for the provision.
OFM	7.7.2 Review and approve the request for a provision for estimated uncollectible accounts receivable and determine whether it is material in the context of the agency's fund and the County's financial statements.



<u>Responsibility</u>	<u>Action</u>
	7.8 <u>Recording the Provision for Estimated Uncollectible Accounts Receivable</u>
OFM	7.8.1 Reverse prior year's provisions, if any.
OFM	7.8.2 Record current year's provision for estimated uncollectible accounts receivable which have been approved.
	7.9 <u>Accounts Receivables Administered Through AIRS</u>
OFM	7.9.1 Follow the procedures outlined in subsections 7.2 through 7.6.
OFM	7.9.2 Compute the recommended provisions for uncollectible accounts receivable by AIRS customer groups.
OFM	7.9.3 Send a memo to each County agency with recommendations for the amount of the provision(s) for estimated uncollectible accounts receivable.
Agency	7.9.4 Review the recommended provision(s) and respond in writing within 10 working days to OFM as to whether or not agreement is expressed.
	7.10 <u>Resolving Disagreements on Recommended Provisions</u>
Agency	7.10.1 Prepare and submit a schedule to the Chief Accountant, OFM, showing the desired provision for estimated uncollectible accounts receivable. Provide supporting computations and documentation.
OFM	7.10.2 Review the agency's schedule for reasonableness. If necessary, meet with the agency to resolve the disagreement.
OFM	7.10.3 Make a final decision on the amount of the provision to be recorded in the County's accounting records.
OFM	7.11 After disagreements have been resolved, follow the procedures outlined in subsection 7.8.



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<u>Responsibility</u>	<u>Action</u>
 8.0 <u>RESPONSIBILITIES</u>	
Dept. Directors	8.1 Ensure that all provisions of this policy/procedure are met.
OFM	8.2 Review the work of the County agencies to ensure that a reasonable method was used to establish a provision for estimated uncollectible accounts receivable and that complete and adequate documentation supports the provision.

9.0 APPENDICES

Sample Aged Trial Balance of Accounts Receivable

ABS:LRB:adw  
ARP3/F11-2













**King County  
Records and Elections Division**  
Records Management Section

Department of  
Executive Administration

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500 Fourth Avenue  
Seattle, WA 98104

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January 28, 1991

TO: Department Policy/Procedure Manual Stations

FM: King County Records Management Section

RE: Distribution of Administrative Policies FIN 11-2 (AP)  
and FIN 11-3 (AP)

Attached are two new administrative policies for inclusion in your Policy Procedure Manual Station binders. These policies are: FIN 11-2 (AP), Provision for Estimated Uncollectible Accounts Receivable and FIN 11-3 (AP), Write-Off of Uncollectible Accounts Receivable.

Please place these policies in the Administrative Policy (AP) binder of your Policy/Procedure Manual Station behind the FIN index tab.

If you have any questions, please feel free to call Linda Grob at 296-1572.

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